

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
AVISTA CORPORATION DBA AVISTA) CASE NO. AVU-E-00-2
UTILITIES—WASHINGTON WATER POWER)
DIVISION FOR AUTHORITY TO REVISE)
ELECTRIC TARIFF SCHEDULE 66—TEMPO-)
RARY POWER COST ADJUSTMENT—IDAHO) ORDER NO. 28366
AND TO IMPLEMENT A RELATED REBATE.)
_____)**

On March 1, 2000, Avista Corporation dba Avista Utilities—Washington Water Power Division (Avista; Company) in Case No. AVU-E-00-2 filed an Application with the Idaho Public Utilities Commission (Commission) proposing a revision to the Company's electric tariff Schedule 66C temporary Power Cost AdjustmentCIdaho. Avista requests that the Commission approve a \$2,364,000, 1.973% rebate to Avista's Idaho customers. The rebate is being requested as a result of the Trigger@being reached and exceeded in Avista's Power Cost Adjustment (PCA) balancing account.

POWER COST ADJUSTMENT—BACKGROUND

The Company's PCA mechanism was first established in Case No. WWP-E-88-3, Order No. 22816 issued October 31, 1989, and has been extended, modified and clarified in a number of subsequent cases (WWP-E-93-3, Order No. 24874; WWP-E-94-4, Order No. 25637; WWP-E-97-10, Order No. 27202; and WWP-E-98-4, Order No. 27824). Since its inception to date of filing, there have been eight rebates totaling \$20,820,000 and three surcharges totaling \$6,769,000.

Water Power's PCA is used to track changes in revenues and costs associated with variations in hydroelectric generation, prices in the secondary market, and changes in PURPA power expenses. The PCA rate adjustment mechanism is designed to recover/rebate variances in power supply expenses incurred by the Company. The PCA mechanism tracks changes in the Company's power supply costs associated with abnormal weather and stream flows. The weather-related portion of the PCA tracks 100% of the variation in hydro generation from the hydro generation authorized, variation in secondary prices from those authorized, and the related variation in thermal generation.

The PCA is also designed to recover contract costs incurred pursuant to the Public Utilities Regulatory Policies Act of 1978 (PURPA) beyond the level included in the Company's general revenue requirement. PURPA contract costs are the result of the Company's federally mandated obligation to purchase the output of qualifying small power and cogeneration facilities and, therefore, are largely outside the control of Avista.

The Company is allowed to record the difference between actual power supply costs and the level of power supply costs authorized by the Commission. When the total difference in costs exceed \$2.2 million, the Company is to notify the Commission and initiate a surcharge or rebate proceeding. The PCA-related rate changes are limited to no more than two consecutive surcharges or rebates during any 12-month period, July 1 to June 30, and the annual rate change during any 12-month period is limited to 5%.

PROPOSED \$2,364,000 OR 1.973% REBATE

As reflected in the Company's Application, the \$2.2 million trigger was reached and exceeded in December 1999, based on actual data from the preceding month, November.

Under the Company's proposal in this case, the monthly energy charges of the individual electric rate schedules are to be decreased by the following amounts:

Type of Service	Present Sch 66 Rebate Effective 8/1/99; Expires 7/31/00 (2.503%)	Proposed Sch 66 Rebate (1.973%)
Schedules 1, 3A-D, & 15 (Residential)	0.115¢/kWh	0.101¢/kWh
Schedules 11, 12, 13A-D, & 16 (General)	0.153¢/kWh	0.137¢/kWh
Schedules 17, 21, 22, & 23A-D (Large General)	0.114¢/kWh	0.095¢/kWh
Schedule 25 (Extra Large General)	0.077¢/kWh	0.065¢/kWh
Schedules 18, 31, 32, & 33A-D (Pumping)	0.107¢/kWh	0.081¢/kWh

Flat rate charges for Company-owned or customer-owned street lighting and area lighting service (Schedules 41-49) under the present rebate are reduced by 2.503% and under the proposed rebate will be reduced by a further 1.973%. Implementation of the proposed rebate will result in an overall decrease of 1.973% in the Company's Idaho electric rates or \$1.01 in the monthly bill of an average residential customer using 1,000 kWh. The combined effect of both the existing and proposed rebates is an overall decrease of 4.476%, or \$2.16 in the monthly bill of an average residential customer using 1,000 kWh. The existing rebate, however, will expire on July 31, 2000.

Avista requested that its Application be processed under Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. The Company, as part of its Application, has filed supporting testimony and exhibits.

On March 15, 2000, the Commission issued Notices of Application and Modified Procedure in Case No. AVU-E-00-2. The deadline for filing written comments was April 5, 2000. Commission Staff was the only party to file comments.

Also filed by the Company during the comment period was a March 23, 2000, letter requesting deferral of the proposed PCA rebate effective date from May 1, 2000 (the date requested in the Application) to August 1, 2000. The later date, the Company contends, would coincide with the expiration of the existing rebate. August 1 is also the date of a previously authorized cost-of-service rate adjustment. Reference Case No. AVU-E-98-11, Order No. 28097.

Commission Staff in its comments recommends that the Company's Rathdrum Turbine be included as a resource in the PCA. Staff notes that the Commission rejected such a proposal in 1994 stating:

For the first time Water Power seeks to include costs related to CTs in its PCA. We reject that request, at this time. By their nature, CTs are relatively lower capital cost and higher fuel cost resources than either hydro or coal-fired resources. Allowing CT fuel costs to be included in the PCA, therefore presents the potential for a shifting of risk from shareholders to ratepayers in comparison to other resources. Until we know more about the reality or magnitude of this potential risk reallocation, we find that it is appropriate to exclude CT costs from Water Power's PCA. The Company is free to present this issue for our consideration in another proceeding where a more complete record can be developed.

Case No. WWP-E-94-4, Order No. 25637.

Staff suggests that this matter should now be revisited.

In Case No. WWP-E-98-11, Order No. 28097, the Commission, Staff notes, reset the Company's normalized base power supply costs. The normalized cost of the Rathdrum turbine (including the fixed cost purchase contract, the fuel costs, the purchase power costs and offsetting secondary sales revenues), are now, in contrast to the Commission's earlier consideration of Rathdrum, all being paid for by ratepayers in their base rates. If Rathdrum, Staff contends, is not included as a resource in the PCA, then ratepayers pay the normalized costs of the turbine in base rates but are denied the cost saving benefits of including it in the PCA calculation. This, Staff contends, is an unacceptable mismatch that disadvantages ratepayers.

The Company and Staff have discussed two ways of including Rathdrum as a resource in the PCA. Rathdrum could be included as a "dispatch" resource using fuel costs and other characteristics established in the base case. If Rathdrum were to be included in this way, Staff calculates the Idaho ratepayer benefit over the five-month period included in the Company's PCA filing to be \$1,354,000. Avista believes that if Rathdrum is included in the PCA, it should be included on an "actual fuel cost and actual revenue basis" due largely to the fluctuations in natural gas prices that affect when the unit can economically be operated. This calculation is not currently available.

It is Staff's understanding that the Company is opposed to including Rathdrum on either a "dispatch" or "actual" basis for past periods, but would support including the unit on an "actual" basis going forward. It is Staff's position that Rathdrum needs to be included in the PCA for all months since the base was updated. In supplemental comments, Staff states that it is continuing to pursue its Rathdrum concerns with the Company. The Company, Staff notes, has raised other PCA concerns including the PCA treatment of Kettle Falls and Centralia. Staff recommends that any difference in power costs related to Rathdrum be deferred to the PCA balance account. Staff recommends that there be no dollar adjustment for Rathdrum in this case as pertains the proposed rebate amount.

Staff concurs with the Company's proposal to delay rebate implementation for three months but recommends that interest accrue for this period, noting that the three-month delay is beyond the normal processing time for PCA trackers. Staff proposes that the interest rate be the rate currently authorized for customer deposits, i.e., 5% for the year 2000 (reference O.N. 28234).

In its comments Staff points out that the Company's notice to customers in this case was once again deficient. Reference Utility Customer Information Rule 102, IDAPA 31.21.02.102 Notices to Customer of Proposed Changes in Rates. Staff reminds the Company that according to

the Utility Customer Information Rules, any application that changes rates can be returned as incomplete if the customer notice is not included.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. AVU-E-00-2 including the comments of Commission Staff and the Company's letter request to defer implementation of the PCA rebate from May 1 to August 1, 2000.

We find the Company's proposal to defer implementation of the proposed PCA rebate (\$2,364,000) to be reasonable. A deferred implementation date will lessen the number of individual rate changes, will provide some offset to the cost of service adjustment and will lessen confusion among customers. Although we issue today no final order regarding the rebate in Case No. AVU-E-00-2, we find Staff's recommendation that interest accrue on the proposed rebate amount for the three month period of deferral to be reasonable, including use of the same interest rate the Company pays on customer deposits, currently 5%. In so doing, we find that the three month deferral period is an exception to the standard timeframes used in processing PCA rebates and surcharges.

The Commission notes, as Staff represents, that the Rathdrum turbine is now included as a dispatchable resource in the Company's power supply model. Reference Case No. WWP-E-98-11, Order No. 28097 issued July 29, 1999. Arguably the Rathdrum turbine should be included in the PCA calculation to balance the equation. We find, however, that we do not have sufficient information regarding Rathdrum vis-a-vis the PCA methodology. Specifically, we would like the Company and Staff to present additional information to the Commission prior to June 30, 2000 regarding the suggested methods for including Rathdrum as a PCA resource (dispatch versus actual), the calculated economic benefits/cost to ratepayers/company of including Rathdrum in the PCA methodology since the base was updated (the five month period included in the Company's PCA filing) and for the present accrual period.

By way of further guidance the Commission informs the parties that it does not consider the present docket to be an appropriate forum for considering additional adjustments to the PCA methodology, i.e., Kettle Falls or Centralia. The Commission believes that any such adjustments should be presented in a separate application to modify the PCA methodology.

ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby approve the proposed change of implementation date for rebate in Case No. AVU-E-00-2 from May 1, 2000 to August 1, 2000. The

Commission further orders that interest should accrue on the deferred amount for the three month deferral period at the same rate as interest accrues for customer deposits.

IT IS FURTHER ORDERED and the Company and Staff are directed to report back to the Commission regarding the issue of the Rathdrum turbine on or prior to June 30, 2000.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho, this day of April 2000.

DENNIS S. HANSEN, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

PAUL KJELLANDER, COMMISSIONER

ATTEST:

Myrna J. Walters
Commission Secretary

bls/O:aveu002_sw